

Message Text

CONFIDENTIAL POSS DUPE

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 IGA-01 AID-05 /074 W
----- 058190

P R 051125Z JUN 75

FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC PRIORITY 4253

INFO AMEMBASSY CANBERRA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY PARIS

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 VIENTIANE 4022

MANILA FOR ASSISTANT SECRETARY HABIB

E.O. 11652: GDS

TAGS: EAID, LA

SUBJECT: FEOF AGREEMENTS

REF: A) VIENTIANE 3899

B) STATE 123202

C) STATE 127435

D) VIENTIANE 3968

SUMMARY. DONOR ADVISORY BOARD MET JUNE 4 TO CONSIDER
PGNU REQUEST FOR EARLY SIGNING OF CY 1975 FEOF AGREE-
MENTS. USAID REP EXPLAINED THAT PGNU HAS ASKED FOR
RENEGOTIATION OF 1951 ECONOMIC COOPERATION AGREEMENT,
THAT NEGOTIATIONS, IF ANY, ARE NOT EXPECTED TO START
UNTIL USAID IS DISSOLVED NLT JUNE 30, AND THAT UNTIL
THESE NEGOTIATIONS ARE CONCLUDED U.S. WOULD NOT BE ABLE
TO STATE WHAT ITS FURTHER CONTRIBUTION TO FEOF FOR
CY 1975 WOULD BE. HE NOTED THAT U.S. HAD ALREADY MADE
AN INTERIM CONTRIBUTION OF \$5 MILLION AND IT WOULD BE
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DESIRABLE IF OTHER DONORS MADE A LEAST A COMPARABLE
CONTRIBUTION.

AFTER PROLONGED DISCUSSION PROPOSAL WHICH EMERGED
FOR REFERRAL TO CAPITALS WAS TO SIGN THE AGREEMENTS IN
LAST YEAR'S FORM SOONEST, AND FOR DONORS TO MAKE AN INITIAL
CONTRIBUTION OF 50 PERCENT OF THEIR PLEDGED CY75 CON-
TRIBUTION.

IT IS CLEAR THAT OTHER DONORS ARE NOT PREPARED TO
SIGN WITHOUT U.S. PARTICIPATION AND ARE NOT IN A POSITION
TO MAKE A CONTRIBUTION UNLESS AGREEMENTS ARE SIGNED.
WITHOUT EARLY CONTRIBUTIONS FEOF WILL SHORTLY HAVE TO
CLOSE ITS DOORS. THIS WOULD BRING LAO IMPORT81*PU*I-T)AKT"

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 SSO-00 IGA-01 AID-05 /074 W

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P R 051125Z JUN 75

FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC PRIORITY 4254

INFO AMEMBASSY CANBERRA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY PARIS

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 2 OF 2 VIENTIANE 4022

MANILA FOR ASSISTANT SECRETARY HABIB

6. AFTER STATEMENTS BY THE OTHER DONOR REPS, THAT (A) THEY WOULD NOT SIGN AN AGREEMENT WITHOUT THE U. S. AND (B) THEIR GOVERNMENTS COULD NOT MAKE A CONTRIBUTION TO FEOF WITHOUT A SIGNED AGREEMENT, THE FOLLOWING PROPOSAL WAS PUT FORWARD BY FRENCHREP ROUZO FOR REFERRAL AND CONSIDERATION BY THE VARIOUS GOVERNMENTS: ALL DONORS AND PGNU WOULD SIGN THE FEOF AGREEMENTS AS SOON AS POSSIBLE WITH THE SAME TEXT AS LAST YEAR. AGREEMENTS WOULD STATE PLEDGES MADE BY THE VARIOUS DONORS IN REPLY TO EARLIER REQUEST BY FOREIGN MINISTER FOR CONTINUED FEOF SUPPORT. UPON SIGNING DONORS WOULD MAKE AN IMMEDIATE CONTRIBUTION OF 50 PERCENT OF THEIR ANNUAL CONTRIBUTION FOR THE FIRST SIX MONTHS OF THE YEAR WHICH HAVE PRACTICALLY ELAPSED. NO FURTHER FUNDS WOULD BE CONTRIBUTED TO FEOF UNTIL A REASSESSMENT OF THE GOVERNMENT'S NEW ECONOMIC POLICIES, FEOF REQUIREMENTS FOR THE BALANCE OF THE YEAR AND U.S. DECISION ABOUT CONTINUING ITS SUPPORT TO FEOF, HAS TAKEN PLACE. PROVISIONS MENTIONED PARA 5 ABOVE WERE CONSIDERED ADEQUATE TO SAFEGUARD EACH DONOR'S
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POSITION.

7. IMF RESIDENT REP SMITH STRONGLY SUPPORTED THIS PROPOSAL. HE POINTED OUT THAT ADDITIONAL INPUT OF APPROXIMATELY \$7.5 MILLION AS A RESULT OF THIS APPROACH WOULD PERMIT CONTINUED OPERATION OF FEOF FOR NEXT THREE MONTHS, PERMITTING AN ORDERLY REASSESSMENT OF FEOF AND THE FOREIGN EXCHANGE REQUIREMENTS IN SUPPORT OF A MEANINGFUL STABILIZATION PROGRAM. IN RESPONSE TO A SUGGESTION BY JAPANESE REP NISHIYAMA THAT HIS GOVERNMENT WOULD WANT ASSURANCES FROM IMF THAT A 50 PERCENT CONTRIBUTION BY DONORS WOULD MAINTAIN CONTINUED SUPPORT OF STABILIZATION PROGRAM, SMITH STATED THAT HE COULD GIVE NO SUCH ASSURANCES AT THIS TIME. HOWEVER, 50 PERCENT CONTRIBUTIONS BY THE DONORS WOULD ENABLE FEOF TO CONTINUE IN OPERATION AND FUND A MODEST IMPORT PROGRAM WHILE REASSESSMENT MENTIONED EARLIER WAS TAKING PLACE. WITHOUT SUCH CONTRIBUTIONS FEOF WOULD HAVE TO CLOSE ITS DOORS ALMOST IMMEDIATELY AND GOVERNMENT WOULD NOT BE ABLE TO MAINTAIN EVEN A MINIMUM IMPORT PROGRAM, WITH OBVIOUSLY THE MOST SERIOUS CONSEQUENCES FOR THE LAO ECONOMY.

8. NEXT DAB MEETING SCHEDULED FOR 9:30 A.M., JUNE 9.

9. COMMENT: WE ARE NOT IN A POSITION TO ASSESS AT THIS

TIME WHAT THE REACTIONS OF THE OTHER GOVERNMENTS TO PROPOSITION MENTIONED IN PARA 6 IS LIKELY TO BE. UNLESS OTHER DONORS RESPOND POSITIVELY THERE IS OBVIOUSLY NO NEED FOR U.S. TO TAKE POSITION. HOWEVER, SOME BASIC FACTS HAVE EMERGED FROM YESTERDAY'S DISCUSSION WHICH NEED TO BE ADDRESSED:

- A. UNLESS THE U.S. IS PREPARED TO SIGN THE AGREEMENTS NO OTHER DONOR WILL SIGN.
- B. OTHER DONORS ARE UNABLE TO MAKE A CONTRIBUTION TO FEOF WITHOUT A SIGNED AGREEMENT.
- C. TO LIMIT U.S. CONTRIBUTION TO FEOF AT THIS TIME TO \$5 MILLION ALREADY CONTRIBUTED WILL NOT BE SUFFICIENT TO OBTAIN OTHER DONORS' CONTRIBUTIONS OF 50 PERCENT (\$4.5 MILLION).
- D. UNLESS AGREEMENTS ARE SIGNED AND DONORS MAKE CONTRIBUTIONS FORTHWITH, FEOF WILL HAVE TO CLOSE ITS CONFIDENTIAL
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DOORS. THUS, REASSESSMENT OF U.S. ATTITUDE TOWARD FEOF AND CONSIDERATION OF ANY FURTHER FEOF ASSISTANCE WITHIN THE CONTEXT OF NEGOTIATIONS RE TOTAL U.S. ASSISTANCE POSSIBILITIES IS LIKELY TO BECOME ACADEMIC.

E. U.S. WILLINGNESS TO SIGN FEOF AGREEMENTS AND BRING ITS OWN CONTRIBUTION TO 50 PERCENT IF OTHER DONORS ARE PREPARED TO DO SO, ON THE OTHER HAND, WILL KEEP FEOF IN OPERATION WHILE REASSESSMENT TAKES PLACE AND WILL THUS PRESERVE U.S. OPTIONS. ADDITIONAL U.S. CONTRIBUTION OF \$3.05 MILLION CAN BE JUSTIFIABLY SEPARATED FROM DISCUSSION RE FUTURE ASSISTANCE SINCE FUNDS ALREADY APPROPRIATED AND WERE DESIGNED TO COVER FIRST SIX MONTHS OF THE CY WHICH HAVE PRACTICALLY ELAPSED. FURTHERMORE, U.S. CONTRIBUTIONS TO FEOF NEED TO BE CONSIDERED SOMEWHAT DIFFERENTLY FROM OTHER, PURELY BILATERAL AID PROGRAMS SINCE IT IS PART OF A MULTILATERAL AGREEMENT INVOLVING OTHER DONORS AND THEREFORE ANY U.S. ACTION IN THIS CONTEXT HAS MUCH BROADER REPERCUSSIONS. FINALLY, ADDITIONAL CONTRIBUTION OF \$3.05 MILLION WOULD INVOLVE NO COMMITMENT WHATEVER WITH RESPECT TO ANY FUTURE U.S. ASSISTANCE. (WE HAVE CONSIDERED POSSIBILITY OF PROPOSING U.S. SIGNING AGREEMENT ON BASIS OF ITS \$5 MILLION CONTRIBUTION AND OTHERS PROVIDING ONE-THIRD OF THEIR ANTICIPATED CY75 CONTRIBUTION (I.E., \$3 MILLION). WE REJECTED THIS COURSE BECAUSE IT WOULD BUY A REPRIEVE OF AT MOST SIX WEEKS WHICH MAY NOT BE LONG ENOUGH TO REASSESS OUR RELATIONS WITH LAOS, NOR HAVE OTHER DONORS INDICATED A WILLINGNESS TO DO SO.)

WE ARE FULLY CONSCIOUS OF THE PROBLEMS INVOLVED IN MAKING AN ADDITIONAL FEOF CONTRIBUTION OF \$3.05 MILLION AT THIS TIME. ON THE OTHER HAND, WITHOUT SUCH A CONTRIBUTION AND INSURING CONTINUED

OPERATIONS OF FEOF FOR TWO-THREE MONTHS, LAO IMPORTS
(INCLUDING POL) WILL COME TO A GRINDING HALT AND RESULT
IN SHARP RISE IN FOOD PRICES AND VIRTUAL COLLAPSE OF
THE ECONOMY, SUCH AS IT IS, OF THE CITIES. UNDER THE
CIRCUMSTANCES, THE U.S. WILL BE BLAMED AND THE MAINTEN-
ANCE OF NORMAL RELATIONS WILL BECOME EVEN MORE UNCERTAIN.
ADDITIONAL CONTRIBUTION OF \$3.05 MILLION WOULD BUY US
TIME, PERMIT ORDERLY DISSOLUTION OF USAID AND WITHDRAWAL
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OF U.S. PERSONNEL AND KEEP U.S. OPTIONS OPEN.
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Message Attributes

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